



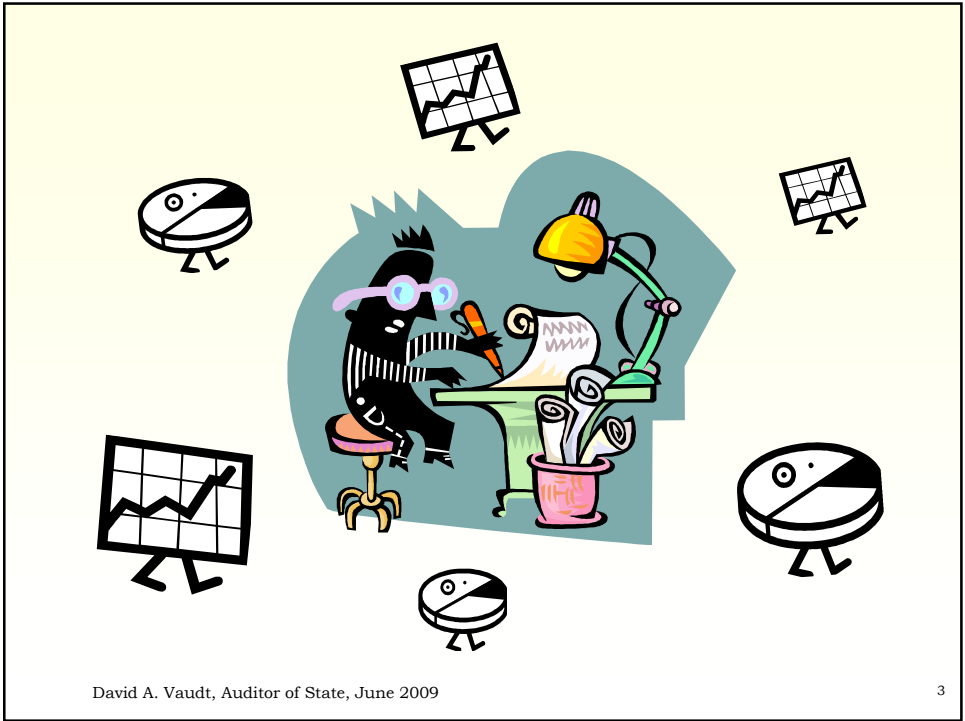
**Auditor of State
David A. Vaudt**

“Budgeting — Iowa’s Future”

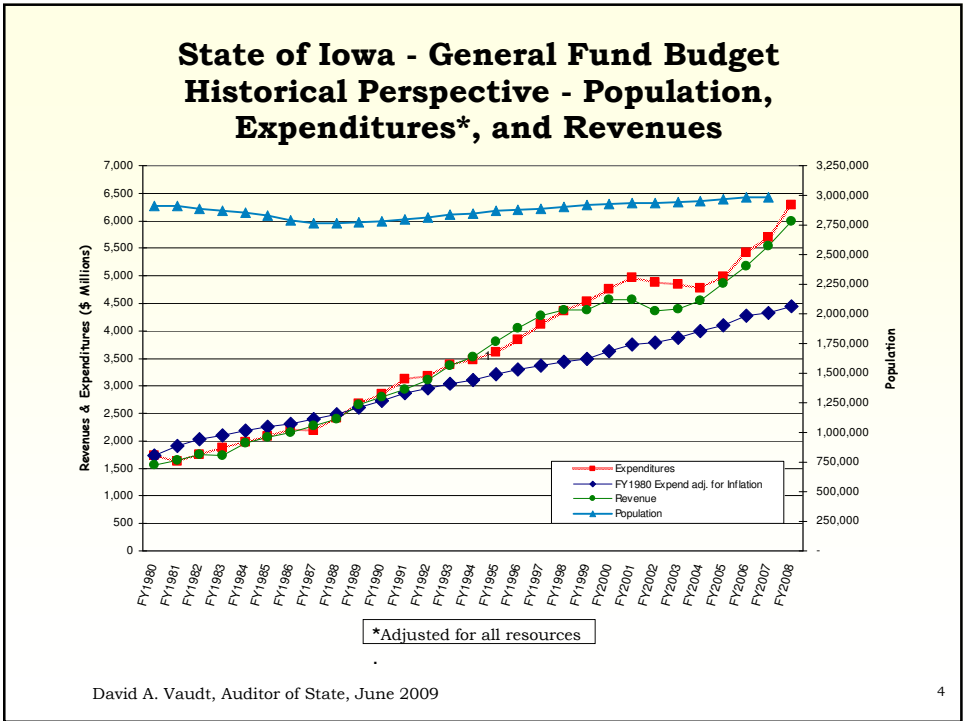
June 2009

**State of Iowa
FY10 General Fund Budget**

- General Fund Budget
 - Brief historical perspective
 - FY08 and FY09 budgets
- FY10 Budget – Legislative Action
 - Snapshot of the numbers
 - The “revenue problem” and the Federal stimulus monies
 - “Budget foundation” seriously flawed
 - Looking ahead to FY11:
 - A “flood of red ink”
 - What could have been
 - Bonding — self-inflicted “need”
 - Stop this short-term nonsense—build a solid “budget foundation” for the future
- Questions

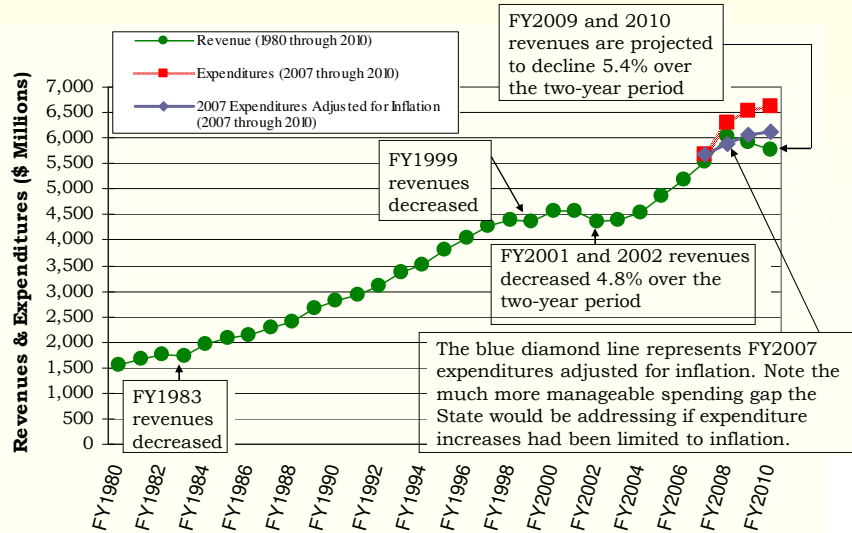


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State of Iowa – General Fund Budget Historical Highlights Regarding Revenue Declines



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State of Iowa - General Fund Budget Historical Perspective - Lack of Clarity (\$ in Millions)

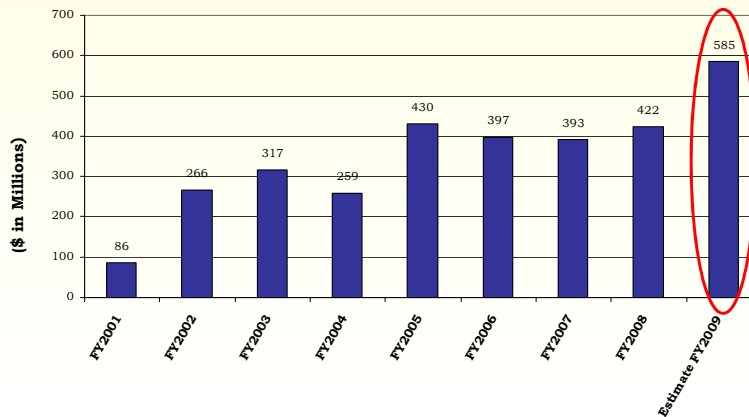
	Reported Expenditures	Expenditures Shifted		"True Total Expenditures"
		Amount	%	
FY00	\$ 4,764	-	-	\$ 4,764
FY01	\$ 4,887	\$ 86	1.8	\$ 4,973
FY02	\$ 4,608	\$ 266	5.8	\$ 4,873
FY03	\$ 4,534	\$ 317	7.0	\$ 4,851
FY04	\$ 4,517	\$ 259	5.7	\$ 4,776
FY05	\$ 4,558 (A)	\$ 430	9.4	\$ 4,988
FY06	\$ 5,028	\$ 397	7.9	\$ 5,425
FY07	\$ 5,320	\$ 393	7.3	\$ 5,713
FY08	\$ 5,950	\$ 422	7.2	\$ 6,372
Estimate FY09	\$ 5,961	\$ 585 (B)	10.0	\$ 6,546

(A) Excludes \$45.6 million Cash Reserve Fund repayment.
 (B) Includes \$150 million Federal stimulus monies.

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State of Iowa - General Fund Budget Historical Perspective - Expenditure Shifts (\$ in Millions)



With Federal stimulus monies, record setting expenditure shifts in FY09!

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State of Iowa - General Fund Budget Expenditure Shifts - Iowa's "Charge Cards" Maxed Out

Iowa's "charge cards" (except for "Rainy Day" funds) are essentially "maxed out."

- Senior Living Trust Fund
- Tobacco Related Funds:
 - Endowment for Iowa's Health Account
 - Restricted Capital Fund
 - Healthy Iowans Tobacco Trust Fund
 - Endowment for Iowa's Health Restricted Capitals Fund
- Property Tax Credit Fund

However, the expenditures are ongoing.

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State of Iowa - General Fund Budget **The Senior Living Trust Fund Story** (\$ in Millions)

Taxpayers are frequently informed about the status of the \$300 million required to be repaid from the nearly \$600 million diverted from the Senior Living Trust Fund.

Cumulative repayments currently projected through FY09 \$252

Key question - What will the balance be at the end of FY09?

Projected balance at end of FY09 \$ 27
Projected balance as a % of cumulative repayments 10.7%

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State of Iowa - General Fund Budget **Budgeted Revenue Growth** **vs. Expenditure Growth** (\$ in Millions)

	Actual FY07	Original Budget		
		FY08	FY09	2-year
Revenues	<u>\$5,723</u>	<u>\$5,990</u>	<u>\$6,282</u>	
Revenue growth		<u>\$267</u> <u>4.7%</u>	<u>\$292</u> <u>4.9%</u>	<u>\$559</u> <u>9.8%</u>
True total expenditures*	<u>\$5,713</u>	<u>\$6,291</u>	<u>\$6,589</u>	
Expenditure growth		<u>\$578</u> <u>10.1%</u>	<u>\$298</u> <u>4.7%</u>	<u>\$876</u> <u>15.3%</u>
2-year expenditure growth as % of revenue growth				<u>156.7%</u>

*Adjusted for all resources

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**State of Iowa - General Fund Budget
Tax & Fee Increases □ Impact on Revenue Growth
(\$ in Millions)**

Tax and fee increases account for 62.6% of the original budgeted \$559 million revenue growth in the FY08 and FY09 two-year period.

	<u>Total Revenues</u>	<u>Newly Enacted Revenues</u>	<u>% Newly Enacted Revenues</u>
FY08 growth	\$267	\$182	<u>68.2%</u>
FY09 growth	<u>292</u>	<u>168</u>	<u>57.5%</u>
Total revenue growth	559	350	<u>62.6%</u>
Less one-time revenues	<u>(28)</u>	<u>(28)</u>	
Ongoing revenue growth	<u>\$530</u>	<u>\$321</u>	
Two-year % increase (A)	<u>9.3%</u>	<u>5.6%</u>	
		<u>3.7%</u>	

(A) Based upon FY07 revenues (\$5,723)

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**State of Iowa
FY10 General Fund Budget
FY09 & FY10 – A Snapshot of the Numbers
(\$ in Millions)**

General Fund revenues available and true total expenditures are as follows:

	<u>FY09 Estimate</u>	<u>FY10 Budget</u>	<u>Increase (Decrease)</u>
Revenues available (A)	<u>\$5,938</u>	<u>\$5,792</u>	<u>\$(146)</u> <u>(2.5%)</u>
“True total expenditures”:			
General Fund appropriations	\$5,961	\$5,768	
Shifted expenditures	435	317	
Federal stimulus expenditures	<u>150</u>	<u>529</u>	
	<u>\$6,546</u>	<u>\$6,614</u>	<u>\$ 68</u> <u>1.0%</u>
Spending gap	<u>\$ (608)</u>	<u>\$ (822)</u>	

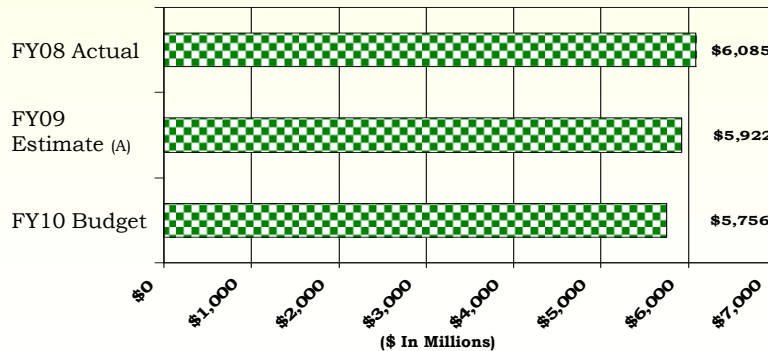
(A) Revenues available includes IowaCare Account and reflects 99% expenditure limitation.

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State of Iowa FY10 General Fund Budget The REC Estimates

Following are the revenue numbers released by the Revenue Estimating Conference (REC) on March 20, 2009:

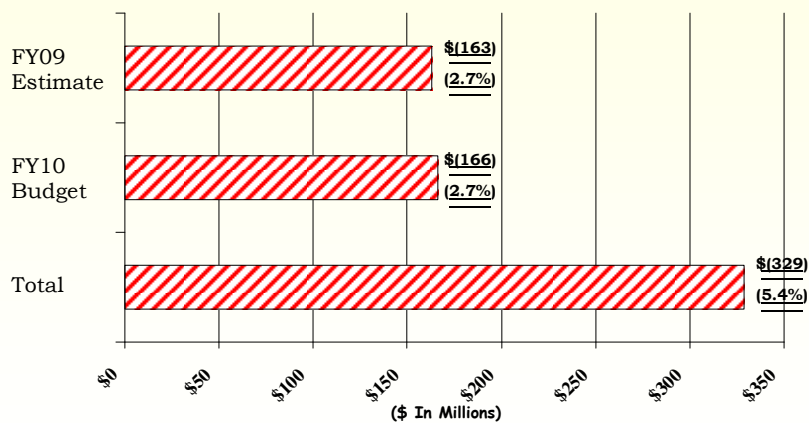


(A) FY09 excludes \$48 million of nonrecurring Legislative transfers as of 3/20/09.

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State of Iowa FY10 General Fund Budget The REC Revenue Declines



Note - % declines based on FY08 actual revenues of \$6.085 billion.

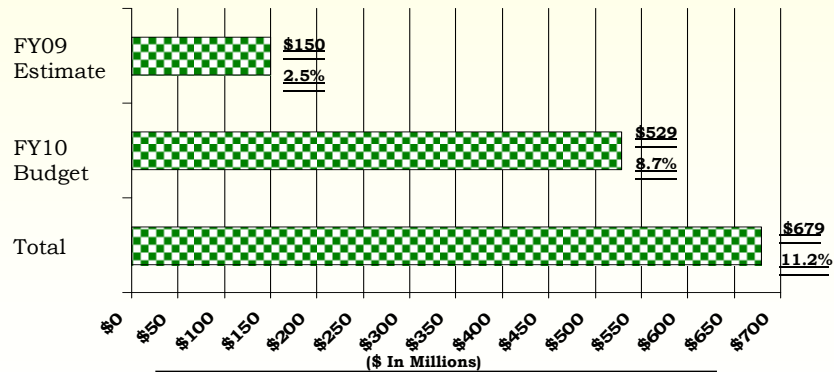
The REC revenue declines are less than 3% per year.

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State of Iowa FY10 General Fund Budget The Federal Stimulus Monies

The budget passed by the Legislature utilizes the following Federal stimulus monies:



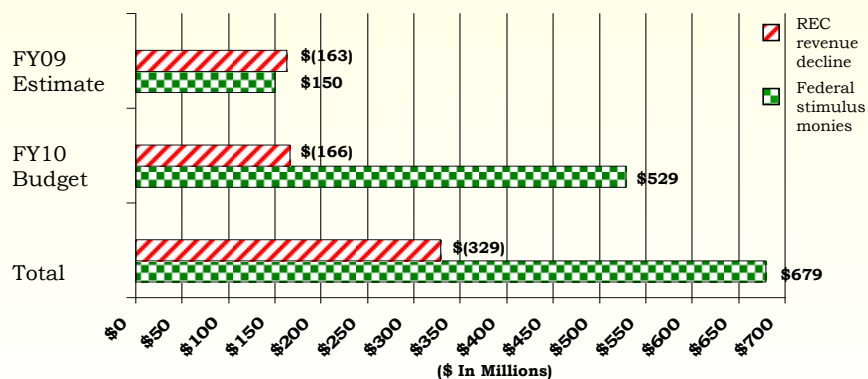
Note - % amounts based on FY08 actual revenues of \$6.085 billion.

Federal stimulus monies totaling more than 11% of revenues were used to offset the 5% revenue decline.

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State of Iowa FY10 General Fund Budget REC Revenue Declines vs. Federal Stimulus Monies



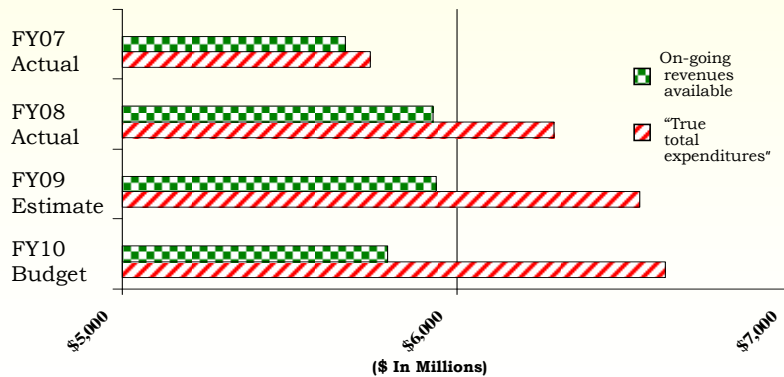
The Federal stimulus monies in FY09 and FY10 are more than double the revenue declines. This illustration simply begs the question: "What is the REAL budget problem?"

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State of Iowa FY10 General Fund Budget Budget Foundation Seriously Flawed

The on-going revenues available are declining while total on-going spending is increasing—a very poor financial sustainability trend!



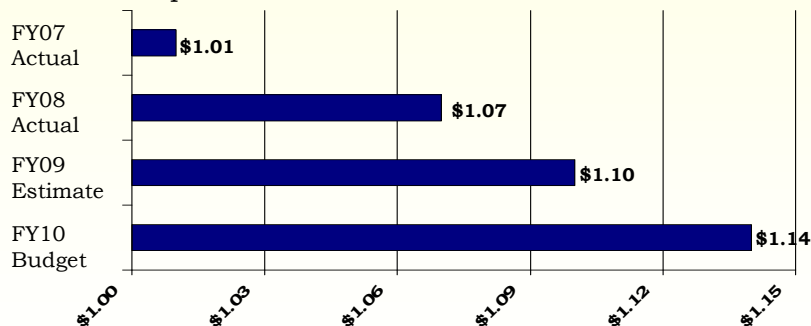
On-going revenues available includes IowaCare Account and reflects 99% expenditure limitation.

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State of Iowa FY10 General Fund Budget On-going Revenues vs. On-going Spending

For every \$1.00 of on-going available revenues, we somehow think we can spend—



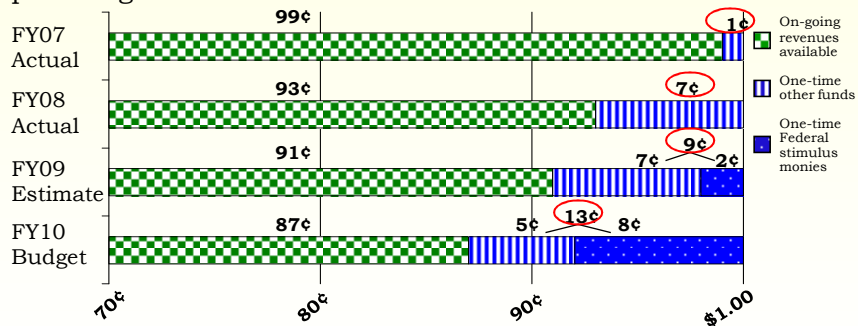
This trend line is definitely going in the wrong direction! It is a direct result of our growing addiction to using one-time monies, including the Federal stimulus monies.

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**State of Iowa
FY10 General Fund Budget
On-going Spending Supported by One-time Monies**

For every dollar of on-going spending, one-time monies are providing—



With one-time monies growing to 13¢ of every \$1.00 of on-going spending in FY10, the disaster is just around the corner—FY11.

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**State of Iowa
FY10 General Fund Budget
The FY11 Outlook
(\$ in Millions)**

FY10 revenues		\$5,851
Less FY11 impacts of enacted revenue reductions and tax credit increases		(50)
FY11 <u>on-going</u> revenues		<u>\$5,801</u>
FY11 <u>on-going</u> revenues available (A)		<u>\$5,743</u>
FY10 true total expenditures	\$6,614	
FY11—Fully-funded/allowable growth/cost increases:		
Preschool & K-12	105	
Medicaid and hawk-i	<u>86</u>	<u>6,805</u>
FY11 spending gap before revenue and other spending changes		<u><u>\$(1,062)</u></u>
FY11 revenue growth needed just to fill the existing spending gap		<u>18.5%</u>
FY11 spending gap after using Federal stimulus monies - \$204 million remaining for FY11		<u><u>\$(858)</u></u>
FY11 revenue growth needed after using remaining Federal stimulus monies		<u>14.9%</u>

(A) Reflects 99% expenditure limitation.

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State of Iowa - General Fund Budget
Assume Inflationary Expenditure Growth -
What Could Have Been
(\$ in Millions)

	Actual		Budget	
	FY07	FY08	FY09	FY10
FY07 true total expenditures, adjusted for inflation	<u>\$5,713</u>	<u>\$5,902</u>	<u>\$6,073</u>	<u>\$6,134</u>
Inflationary expenditure growth	<u>\$189</u>	<u>\$171</u>	<u>\$61</u>	
Inflation (A)	<u>3.3%</u>	<u>2.9%</u>	<u>1.0%</u>	

(A) Actual for 2007 and 2008; assumed for 2009.

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State of Iowa
FY10 General Fund Budget
The FY11 Outlook - What Could Have Been
(\$ in Millions)

FY10 revenues		\$5,851
Less FY11 impacts of enacted revenue reductions and tax credit increases		(50)
FY11 <u>on-going</u> revenues		<u>\$5,801</u>
FY11 <u>on-going</u> revenues available (A)		\$5,743
FY10 true total expenditures (FY07 inflation adjusted) (B)		<u>\$6,134</u>
FY11—Fully-funded/allowable growth/cost increases:		
Preschool & K-12	105	
Medicaid and hawk-i	<u>86</u>	<u>6,325</u>
FY11 spending gap before revenue and other spending changes		<u>\$ (582)</u>
FY11 revenue growth needed just to fill the existing spending gap		<u>10.1%</u>
FY11 <u>revenue surplus</u> after using Federal stimulus monies - \$684 million remaining for FY11 (C)		<u>\$ 102</u>
FY11 revenue <u>decline tolerable</u> (without spending cuts) after using remaining Federal stimulus monies		<u>(1.8%)</u>

(A) Reflects 99% expenditure limitation.

(B) Inflation: 3.3%--Actual 2007; 2.9%--Actual 2008; 1.0%--Assumed 2009.

(C) Federal stimulus monies remaining assuming inflationary spending: (\$204+(\$6,614-\$6,134)).

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**State of Iowa
FY10 General Fund Budget
Bonding — Self-inflicted “Need”
(\$ in Millions)**

Rebuild Iowa Infrastructure Fund (RIIF):

Resources available:	FY09 <u>Estimate</u>	FY10 <u>Budget</u>	<u>Total</u>
Gaming revenues	\$ 202	\$ 205	
Interest	18	12	
Tobacco MSA payments	22	17	
Riverboat license fees	8	-	
Beginning balance and other, net	37	(2)	
	<u>\$ 287</u>	<u>\$ 232</u>	<u>\$ 519</u>
Non-RIIF uses:			
Transfers to General Fund	\$ (59)	\$ -	
Expenditure shifts	(101)	(88)	
	<u>\$(160)</u>	<u>\$ (88)</u>	<u>\$(248)</u>
Amount remaining for RIIF purposes	<u>\$ 127</u>	<u>\$ 144</u>	

Nearly ½ of the RIIF monies have been diverted from infrastructure to pay for General Fund services in FY09 and FY10. Now we “need” to borrow.

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**State of Iowa
FY10 General Fund Budget
Bonds Authorized
(\$ in Millions)**

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Net Proceeds</u>
Revenue Bonds	\$ 636	\$ 563	\$1,199	\$ 545
Appropriation Bonds	117	96	213	105
Regents Bonds	137	115	252	115
	<u>\$ 890</u>	<u>\$ 774</u>	<u>\$1,664</u>	<u>\$ 765</u>

If the \$248 million diverted from RIIF in FY09 and FY10 had been used for infrastructure projects instead of General Fund costs, we would have saved Iowa taxpayers \$250 million dollars in interest—the huge cost of short-term thinking!

For every \$1.00 of construction in the next 2 years, it will eventually cost the taxpayers \$2.18 over the next 25 years!

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**State of Iowa
FY10 General Fund Budget
Stop the Nonsense – Build a
Solid Budget Foundation**

Get involved and communicate with your elected officials—demand fiscal responsibility. Tell them to stop this short-term nonsense and insist they—

- (1) Bring clarity to the budgeting process;
- (2) Bring spending back in line with revenues; and
- (3) Show us where they are leading us—by planning longer term.

Hold them accountable when they aren't fiscally responsible. We must stop the fiscal train wreck they are creating for our children and grandchildren.

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**State of Iowa
FY10 General Fund Budget
Questions for Your Elected Officials**

The key questions to ask your elected officials:

- (1) In light of diversion of RIIF monies to pay for non-infrastructure items (a short-term decision that forced the state to borrow for its infrastructure needs), what are your thoughts on the benefits of longer-term planning?
- (2) What are your plans to replace the Federal stimulus and other one-time monies utilized in FY10 that will disappear in FY11, creating a nearly \$1 billion spending gap?

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State of Iowa What Can You Do?

- Stay informed
- Communicate with the Governor and your Legislators:

Governor	515-281-5211
House	515-281-3221
Senate	515-281-3371

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[YouTube.com](#) – Key words “Iowa State Auditor”
5 minute Iowa budget video

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